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ABSTRACT

Over 250 rural leaders attended the conference "Beyond Agriculture: New Policies for Rural America," held in Kansas City (Missouri) in April 2000. The conference began with an assessment of where the rural economy and rural policy are headed in the new century. Speakers suggested that the rural economy is likely to remain a mix of weakness and strength in the foreseeable future and that current U.S. rural policy--a motley collection of many different policies with no unifying mechanism--will not meet the challenges ahead. A fundamental rethinking of rural policy is needed to meet the challenges of the new century, particularly the need to improve educational attainment and worker training in rural areas, to fully integrate rural schools into telecommunication networks, and to move beyond policies focused on agriculture alone to more balanced rural development approaches. Federal Reserve Chairman Alan Greenspan pointed to technology as the driving force of the rural economy in the new century. The second conference session examined how rural America can seize new economic opportunities and discussed ways to bolster three critical economic resources in rural areas: infrastructure, human capital, and leadership. The final conference session explored new directions for rural policy: shifting from a sectoral to a territorial focus, devolving policy administration to "new regions" that often cut across traditional political boundaries, coordinating policies across sectors, and pursuing new policy goals. Conference speakers are listed. (SV)

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CENTER FOR THE STUDY OF RURAL AMERICA
Federal Reserve Bank of Kansas City

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ED 443 645

The Main Street Economist
Commentary on the rural economy

RC 022558

New Directions for U.S. Rural Policy

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More than 250 rural leaders from throughout the nation and beyond gathered at a special conference in Kansas City in April to discuss rural America's future, its challenges, and policies to meet those challenges. *Beyond Agriculture: New Policies for Rural America* was the first in a new series of conferences sponsored by the Center on rural issues. Many distinguished economists and rural experts made presentations at the conference, with keynote remarks by Federal Reserve Chairman Alan Greenspan. Conference participants represented all regions of rural America, five foreign nations, and many walks of life—business, agriculture, banking, universities, and public officials at the federal, state, and local levels.

Conference participants agreed that the current pattern of uneven rural growth is likely to persist, leaving many rural communities searching for new sources of growth. Another point of agreement was that agriculture will remain a key sector to the rural economy, but not big enough to assure

strong growth in many parts of the nation. A strong consensus formed around the need to connect rural America to the digital economy, and to raise the skills of workers and leaders to compete more effectively. While there was no consensus on which new policy approach holds the greatest promise for rural America, there was general agreement that a new path is essential if rural America is to seize its full economic potential.

Rural America at a Crossroad

The conference began with an assessment of where the rural economy and rural policy are headed at the start of the new century. While there are pockets of strength in the rural economy, there are many areas of weakness, pointing to a series of policy challenges in helping rural America join the nation's prosperity. Meanwhile, rural policy is still largely focused on agriculture, leaving considerable scope for new policy initiatives aimed at broader rural economic challenges.

Tom Johnson suggested the rural economy is likely to remain a mix of weakness and strength for the foreseeable future. A third of all rural counties captured three-fourths of all rural economic gains in the 1990s. This concentration of economic activity is the result of powerful shifts in demographics, technology, and business practices. For example, rural areas that have gained economically tend to have amenities that attract more footloose people and businesses, and also have the infrastructure to support businesses more dependent on knowledge than natural resources.

Rural areas still tied to traditional rural industries, such as agriculture and forestry, face big challenges in the period ahead, according to Johnson. In a global economy, commodity industries will face stiff competition and thin profit margins. And while rural America has often based its development on relatively low labor costs, future opportunity will be based more on skilled workers and capital investment. This will tend to shift economic advantage to owners of capital rather than labor. Overall, these economic pressures will encourage continued structural change and hurt some existing businesses on Main Street. Thus, Johnson concluded, many communities will be searching for ways to encourage higher value products and knowledge-based industries, and policymakers will be looking for broader approaches to rural policy.

Ray Marshall suggested that rural policy, as currently constituted, will not meet all of rural America's challenges in the 21st century. Over time, U.S. rural policy has become a motley collection of many different policies, with no unifying mechanism, and leaning mainly on farm policy for its focus.

The challenges ahead require a fundamental rethinking of rural policy.

The challenges ahead require a fundamental rethinking of rural policy, Marshall argued. Two challenges will be especially important. Education and worker training will be essential in helping rural communities grow high performance, knowledge-based companies. The evidence shows that rural areas still lag behind in educational attainment and in worker training. Rural schools have special needs to raise their standards and become fully integrated into telecommunication networks. More broadly, telecommunication technology has the potential to overcome many rural economic disadvantages, but current market trends suggest many rural places may not have access to this technology in the future. There is mounting evidence that investments in new rural communication networks can spawn new economic development, Northern Italy providing a good example. The real challenge, according to Marshall, is determining whether rural areas merit separate treatment in the regulatory approaches that will govern new investments in telecommunication infrastructure.

Marshall concluded that rural America is sufficiently unique to justify pursuing a new generation of rural policy. Such a policy is in the national interest, he suggested, due to the nation's interest in a prosperous, cohesive society, the preservation of the rural environment for people everywhere, and the fact that rural problems turn into urban ones and rural prosperity contributes to national prosperity. A new rural policy should not give inordinate attention to agriculture but should consider agriculture an important component of the rural and national economies. A rural policy should foster an environment that encourages the growth of "high performance companies," that is, companies that stress learning, productivity, and global competitiveness. Finally, rural policy should have safety nets to help rural businesses, including family farms, to survive changes in conditions over which people have little control.

Terry Jorde kicked off the general discussion in the first session by concurring that diversifying the rural economy and maintaining rural population will require more than farm policy alone, important as that will be. As debate on the next farm bill begins in earnest next year, Congress will need to begin including broader rural development policies into the legislative mix. However, a broader approach may be difficult since the jurisdiction over rural issues is divided. She suggested the real challenge in rural America is creating more wealth, and there is no ready formula to do that consistently. Community banks will play an essential role in spurring future development, serving as

Diversifying the rural economy and maintaining rural population will require more than farm policy alone.

a catalyst both in bringing together and in launching new development visions.

Luncheon Address

In the keynote address, Federal Reserve Chairman Alan Greenspan pointed to technology as the driving force of the rural economy in the new century. Technology has certainly been a powerful force in the past century, pushing up productivity in agriculture, for instance, faster than in the rest of the economy. But waves of innovation and invention will continue, especially in the form of information technology.

While it is difficult to predict the ultimate impact on rural America, Greenspan argued that the spreading wave of information technology will propel the process of "creative destruction." Technology will continue to replace old firms with new, reduce the costs of doing business, alter the mix of goods and services, and shift the location of economic activity. Central cities will likely exert a strong pull on economic activity in a digital economy, but Greenspan also suggested that the new technologies will enable some rural communities to capture new economic activities, such as e-commerce services.

Greenspan concluded that the benefits of technological innovation—in urban and rural America alike—will more than outweigh the dislocations that may accompany its adoption.

Seizing New Opportunities in Rural America

The second conference session examined how rural America can seize new economic opportunities. Presenters concluded that three of rural America's critical economic resources—infrastructure, human capital, and leadership—generally lag behind the resources found elsewhere in the U.S. economy. Still, the wrap-up paper suggested that there are viable ways to build new economic engines for rural America.

Rural infrastructure contributes to rural economic growth, but by itself cannot guarantee growth. Bill Fox suggested that many infrastructure investments will be needed in rural America, but that such spending must be considered alongside other development strategies. Poorly maintained rural roads and inadequate Internet access are two clear examples of areas where additional investment will be needed. Fox suggested dollars would be best spent if a policy were designed around a few key principles. Decisions should, as often as possible, be made on an individual project basis. A "minimum complement" of infrastructure is needed throughout rural America, but that minimum should be redefined to recognize 21st century values and realities. In general, infrastructure should be built to meet known demands, not prospective ones. And it is generally cheaper to maintain infrastructure, such as roads, than it is to build new projects periodically.

The new technologies will enable some rural communities to capture new economic activities, such as e-commerce services.

Many speakers agreed that human capital, the skills of workers and managers, will be crucial to the rural economic outlook. Martin Jischke pointed out that rural America's human capital has been falling, mainly through the export of its young people to urban and suburban areas. While this trend is not new, new steps are needed to stem that tide if rural America is to tap more economic opportunities, especially since knowledge-based industries figure so prominently in the new economy. Jischke laid out four steps for boosting rural human capital: utilizing distance education to build the human capital of the existing work force; strengthening the rural education system to raise educational outcomes for rural youth; importing new human capital, perhaps through a 21st century equivalent of the Homestead Act; and creating a rural environment that will better attract and retain people with high human capital.

Assessments of rural leadership are difficult to obtain. Jorde and others, however, argued that the steady outflow of rural young people and skilled workers has left many rural communities with only limited leadership capacity. Stephen Cornell offered a useful parable to understand better the leadership challenges facing rural America.

Cornell suggested that extensive studies of economic development on American Indian reservations offer four helpful lessons for rural America more generally. Local control puts the development agenda in local hands and creates a much stronger link between decisions and their consequences. Local institutions also matter, since they send a message to potential investors. Strategic thinking helps direct efforts by providing a systematic examination not only of assets and opportunities but also of priorities and concerns. Finally, leadership plays a big role in economic development by precipitating action, interpreting events, and providing a conduit for information.

While efforts remain to bolster its resources, rural America has some distinct opportunities to seize. Andy Isserman highlighted two very different futures. In the first case, a significant portion of today's rural America will be "metropolinized" in the years ahead. He pointed out that the fastest growing portion of the U.S. economy over the past three decades has been that part which is "formerly rural." That is, rural areas now next to the nation's metro areas, or ones growing fast enough to become a metro area in their own right, probably have very bright economic futures.

In the second case, rural America has many competitive advantages on which to build. Primary sectors, such as agriculture and forestry, will continue to prosper due to their technological edge, though likely with fewer, larger firms. A bountiful supply of scenic amenities will propel rural growth in many parts of the nation. Manufacturing seems likely to remain a powerful economic engine for much of rural America. Finally, telecommunications will put more goods

and services at the fingertips of rural consumers, while perhaps underscoring the difficulties of operating rural businesses at a scale that can compete in the digital era.

New Directions for Rural Policy

The final conference session explored new directions for rural policy, building on a new slate of goals and what can be learned from the rest of the world. Presenters concluded that aligning policy decisions with emerging "economic regions" would be an important first step, although the goals that will guide a new generation of rural policy remain somewhat elusive.

The challenges facing rural America are not unique—the same challenges are found in rural areas throughout the world. Mario Pezzini highlighted three shared challenges. Though agriculture and other natural resource industries are still important, they are producing fewer and fewer rural jobs. Rural areas suffer from the out-migration of both young and highly skilled workers, leaving an aging population and strained public services. And most rural areas have difficulty mustering the critical mass of capital and infrastructure to encourage and sustain new rural entrepreneurs. Recognizing these challenges, many countries are searching for local rural features that can spur new growth, such as scenic amenities, environmental virtues, or unique products that reflect the cultural heritage of a particular region.

While countries are responding in many different ways to these challenges, successful policies appear to have three common traits.

First, rural policy shifts from a focus on individual sectors (such as farm policy) to one based on regions or territories. Territorial policy is becoming much more common in many OECD countries, as are steps to improve coordination of the sectoral policies that remain.

Second, the administration and design of such policies devolves from national governments to the "new regions," which often cut across traditional political and administrative boundaries. That is, governments are recognizing that economic regions are more meaningful than traditional policy boundaries, and attempts are being made to align the two. Many countries are providing support for "bottom-up" development initiatives, for example through the Canadian Community Futures Program and the EU LEADER program.

Third, there are new attempts to better coordinate policies affecting rural areas. At the federal level, this often involves creating new inter-ministerial working groups (Canada has recently instituted such a group). At the local level, it often means forming new partnerships among various public departments and agencies as well as including the private and nonprofit sectors. Pezzini concluded that these policy innovations could be especially instructive to a new generation of rural policy in the United States, where farm policy has been the major focus in the past.

An important step toward any rural policy in the United States will be a careful consideration of new policy goals. Geoff Hewings put forward several possible goals, but concluded that the final selection will be difficult given the lack of debate on this topic in the past or currently. Improving rural infrastructure will be an important objective, but the benefits may be smaller than similar investments in metropolitan areas. Expanding agricultural opportunities will be important, through value-added processing and new specialized crops. Lifting rural human capital will be an essential ingredient in spurring new rural business formation. Finally, improving rural economic networks will be an important step in harnessing the potential of the small businesses that typify the rural economic landscape. Hewings concluded that there will not be one way to address the myriad problems in rural America. New approaches are needed, he argued, but any new rural policies must recognize at the outset that not all rural communities may be viable in the future.

Plugging rural communities into the digital age may be the biggest challenge facing rural America.

Conclusions

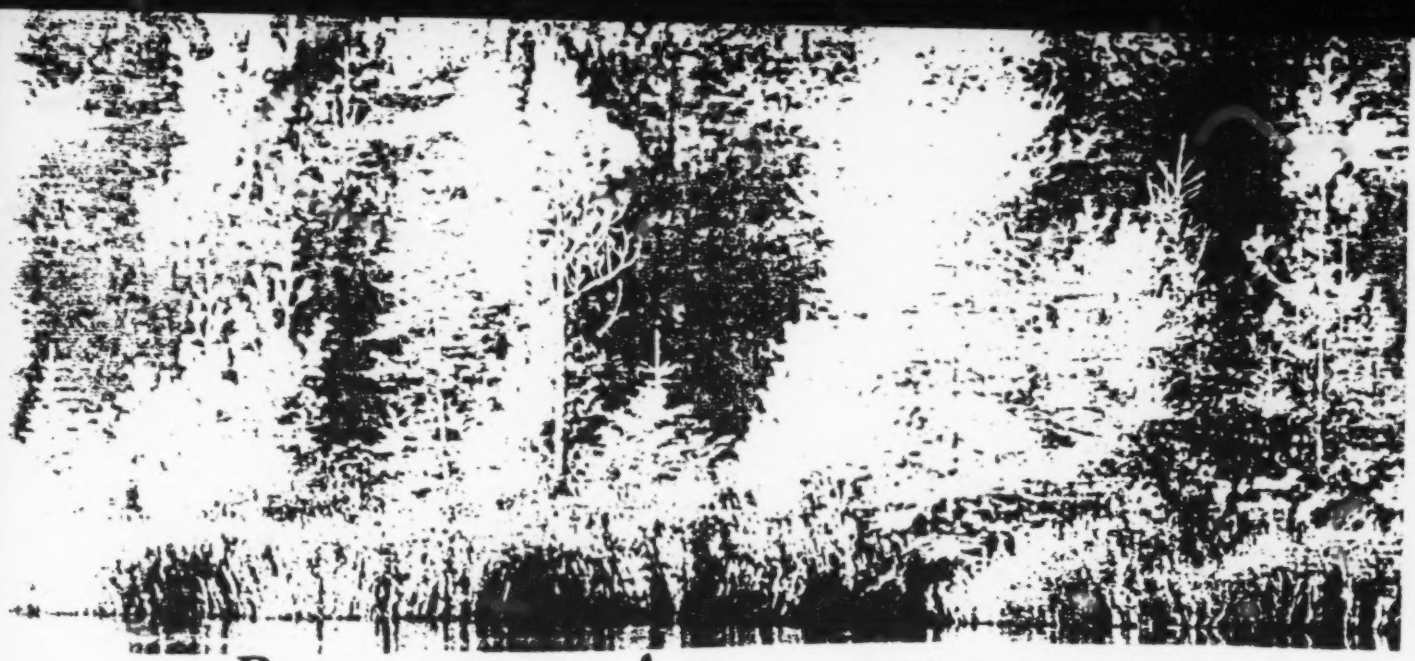
An overview panel put conference findings into some final context. Under Secretary of Agriculture Jill Long Thompson suggested that undertaking new initiatives to spur rural economic growth will be critical in the period ahead, but helping farmers prosper in a changing agricultural economy will also be important. She underscored the need to help rural America connect with an increasingly digital economy.

Jesse White concurred that innovative policy steps are needed to boost rural America's economic outlook. He noted that Appalachian Regional Commission initiatives show that infrastructure investments and a focus on indigenous business start-ups offer rural economic rewards over time.

Al Olson called for a rural policy that will promote and sustain diversification in the rural economy while also encouraging alternative uses for some cropland. One useful paradigm to consider may be the EU concept of "multifunctionality"—farmland that provides environmental, landscape, and rural viability benefits in addition to producing food and fiber.

Javier Gonzalez underscored the role that local control and leadership will play in meeting rural America's challenges, but he pointed to a broader responsibility in bringing telecommunications to the countryside.

In the end, technology was the strongest theme of the conference. No one offered a formula for plugging rural communities into the digital age, but most agreed this is the biggest challenge facing rural America. Other recurring themes were the need to lift the skills of rural workers and leaders, and the need for rural policy to extend beyond a focus on agriculture alone. While there was no agreement on what the nation's rural policy should be, there was broad consensus that rural America will need new policies if it is to reach its full potential in the 21st century.



BEYOND AGRICULTURE

New Policies for Rural America

Rural America at a Crossroad

Thomas G. Johnson — *Frank Miller Professor of Agricultural Economics, University of Missouri*

Ray Marshall — *Audre and Bernard Rapoport Centennial Chair Emeritus in Economics, LBJ School of Public Affairs, University of Texas at Austin*

Terry Jorde — *President/CEO, CountryBank USA, Cando, North Dakota*

Luncheon Address

Alan Greenspan — *Chairman, Board of Governors of the Federal Reserve System*

Seizing New Opportunities in Rural America

William F. Fox — *Professor of Economics, University of Tennessee*

Martin C. Jischke — *President, Iowa State University*

Stephen Cornell — *Director, Udall Center for Studies in Public Policy, University of Arizona*

Andrew M. Isserman — *Professor of Agricultural Economics, University of Illinois*

New Directions for Rural Policy

Mario Pezzini — *Head of the Regional and Rural Development Programme, Organisation for Economic Co-operation and Development, Paris*

Geoffrey J.D. Hewings — *Professor of Geography and of Urban and Regional Planning, University of Illinois*

Allen I. Olson — *President, Independent Community Bankers of Minnesota*

Javier Gonzales — *County Commissioner, Santa Fe, New Mexico*

Jill Long Thompson — *Under Secretary of Agriculture, U.S. Department of Agriculture*

Jesse L. White, Jr. — *Federal Co-Chairman, Appalachian Regional Commission*

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Beyond Agriculture

New Policies for Rural America

Rural America faces a new century of challenges to its economic viability. Yet rural policies remain rooted in the 20th century.

To help improve the rural economic outlook, the Center for the Study of Rural America hosted a conference, "Beyond Agriculture: New Policies for Rural America," April 27–28, at the Westin Crown Center Hotel in Kansas City, Missouri.

A distinguished group of rural experts from the United States and beyond were on hand to discuss the policies that will shape the future of rural America. Our audience included national leaders from government, business, finance, and academe.

The conference proceedings will be available soon. To receive a free copy, please visit our website at www.kc.frb.org or write us at:

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